UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

OCT 22 1998

50th ANNIVERSARY OF WORLD WAR II COMMEMORATION

COMPTROLLER

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
DIRECTOR, DEFENSE RESEARCH AND ENGINEERING
ASSISTANT SECRETARIES OF DEFENSE
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE
DIRECTOR, ADMINISTRATION AND MANAGEMENT
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Revised Policy for the Depreciation of Department of Defense (DoD) General Property, Plant and Equipment Assets

This office has revised the policy for computing the depreciation of General Property, Plant and Equipment (PP&E). The revised policy is provided in the attachment to this memorandum. These policy revisions are effective immediately. Additionally, except for Defense Working Capital Fund (DWCF) activities, the revised policies may be used to calculate the depreciation of General PP&E assets for FY 1998 financial statements. For DWCF activities, this revised policy shall be effective for all General PP&E assets acquired on or after October 1, 2000.

Implementing this policy may require the effort of more than just the financial communities within the DoD Components, since nonfinancial feeder systems (e.g., property data bases) and information furnished by DoD contractors must provide the Department's financial systems with the necessary information.

This office is in the process of revising the "DoD Financial Management Regulation" (DoD 7000.14-R) to incorporate the accounting principles, standards and reporting requirements of the Statement of Federal Financial Accounting Standards No. 6 and will include the policy revisions issued by this memorandum.

Mr. Stephen Tabone is my staff contact on this matter. He may be reached by e-mail at: tabones@osd.pentagon.mil or by telephone at (703) 693-6520/(DSN) 223-6520.

William J. Lynn

Attachment

DEPARTMENT OF DEFENSE
GENERAL PROPERTY, PLANT AND EQUIPMENT (PP&E)
DEPRECIATION POLICY

The following modifies the depreciation policy issued in the Under Secretary of Defense (Comptroller) memorandum, dated March 26, 1998. This policy will be incorporated into the appropriate chapters and volumes of the "DoD Financial Management Regulation" (DoD 7000.14-R).

Policy Change 1. The Department of Defense (DoD) policy for depreciation has been revised to permit the use of the Mid-Year Convention when computing the depreciation of General PP&E assets.

Current Policy: Computation of depreciation shall commence in the month following the date of receipt shown on the asset's receiving document, or the date the asset is installed and ready for use (regardless of whether it is actually used), whichever is later.

Revised Policy: Computation of deprecation shall be based on either:

(1) Mid-Year Convention. Under the Mid-Year Convention, 6 months of depreciation is computed and expensed in the first and last year of an asset's useful life, regardless of the actual month the asset was placed in, and removed from, service.

(2) Month Placed in Service Method. Under the Month Placed in Service method, the month following the date of receipt shown on the asset's receiving document, or the month the asset is installed and ready for use, whichever is later, is used to compute the amount of depreciation expense for the first year.

Implementation Guidance: The DoD Components shall be consistent in the use of the Mid-Year Convention or the Month Placed in Service Method. If a DoD Component elects to use the Mid-Year Convention, it shall be used for an entire activity (i.e., all Working Capital Fund activities or all General Fund activities). In addition, a DoD Component may elect to use either of the two depreciation methods for an entire class of General PP&E assets, regardless of activity (i.e., all real property assets could use Mid-Year Convention method and Personal Property could use Month Placed in Service method).

If a DoD Component elects to use the Mid-Year Convention, it shall be used for all new assets acquired after issuance of this policy. The DoD Components shall not attempt to adjust the depreciation schedules of assets currently on-hand. However, the Mid-Year Convention is permitted, and recommended, if a DoD Component is computing depreciation for the first time on existing General PP&E assets in order to report such depreciation on its FY 1998 Chief Financial Officer audited financial statements.

Attachment

Policy Change 2. The DoD standard recovery periods for computing depreciation have been modified to eliminate the 12-year recovery period. In addition, the recovery period for leasehold improvements to buildings also has been modified from "40 years" to be a recovery period that is equal to the remaining period of the applicable lease. Additionally, the recovery period for internally developed software is being modified from "10 years" to be "5 years." A table reflecting the revised DoD recovery periods for depreciation follows.

Implementation Guidance: The modifications to the DoD standard recovery periods are applicable to all General PP&E assets acquired after issuance of this guidance. The DoD Components shall not attempt to adjust the depreciation schedules of assets currently on-hand when depreciation was previously computed using a different recovery period. However, the revised recovery periods shall be used by the DoD Components when computing depreciation for the first time on existing General PP&E assets, and may be used to report depreciation on FY 1998 Chief Financial Officer audited financial statements.

DoD RECOVERY PERIODS FOR DEPRECIABLE GENERAL PP&E ASSETS

Description of General PP&E Assets	Recovery Period
General Purpose Vehicles (Includes Heavy Duty Trucks & Buses), ADP Systems and Hardware (Computers and Peripherals), High Tech Medical Equipment, Equipment Used in RDT&E, Radio and Television Broadcasting Equipment, Software (Commercial and Internally Developed)	5 Years
All Other Equipment and Machinery; Printing, Publishing and Duplicating Equipment; Telecommunication Equipment and Towers; Automated Warehouse Retrieval Systems	10 Years
Leasehold Improvements to Buildings	Lease Period
Vessels, Tugs, Barges and Similar Water Transportation Equipment (non-National Defense PP&E vessels/ships) Steam (12.5K pounds per hour or more) and Electric Generation (500 Kilowatt or more) Equipment Improvements Made or Added to Land (i.e., Fences, Roads, Bridges, Sewers, Ship and Railroad Wharves and Docks, Dry Docks) (Includes Improvements Made to Stewardship Land) (Excludes: Buildings, Hangars, Warehouses, Fuel Storage Facilities, Air Traffic Control Towers, and Other Real Property Structures)	20 Years
Buildings, Hangars, Warehouses, Fuel Storage Facilities, Air Traffic Control Towers, and Other Real Property Structures	40 Years

Attachment